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FISCAL IMPACT STATEMENT

LS 6038 **NOTE PREPARED:** Jan 31, 2006
BILL NUMBER: HB 1140 **BILL AMENDED:** Jan 30, 2006

SUBJECT: Abatements for Used Indiana Equipment.

FIRST AUTHOR: Rep. Leonard **BILL STATUS:** 2nd Reading - 1st House
FIRST SPONSOR:

FUNDS AFFECTED: **GENERAL**
X **DEDICATED**
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) *Abatements for Used Equipment:* This bill provides that certain equipment installed in an economic revitalization area or a maritime opportunity district after being used in Indiana by a person other than the tax abatement applicant is eligible for tax abatement.

Reassessment of Sold Lots: The bill specifies when a lot or tract held for sale in the ordinary course of trade or business may be reassessed for property tax purposes.

Property Tax Payment Options: This bill allows a county council to authorize installment payments of property taxes (without approval of the county treasurer or county auditor). The bill reduces the penalty for a late installment of property taxes from 10% to 5%, if (1) the late installment is completely paid on or before the date 30 days after the installment due date; and (2) the taxpayer is not also liable for delinquent property taxes first due and payable in a previous year for the same parcel.

Abatement - Foundry: This bill provides that a company that meets certain criteria may file refund claims for property tax deductions for new manufacturing equipment placed in service in an economic revitalization area in 2001.

Exemption - Fraternity: The bill provides a property tax exemption with respect to property taxes first due and payable in 2001, 2002, 2003, and 2004 for college fraternity that did not timely comply with filing requirements.

Exemption - Youth Soccer Organization: The bill also permits a nonprofit corporation that operates a youth soccer program to claim a refund for property taxes first due and payable in 2003 and 2004.

Farm Equipment: The bill provides that the Department of Local Government Finance may not establish by rule a minimum valuation method for agricultural personal property more than thirteen years old, and directs the department to adopt rules to value such property at the property's fair market value.

Effective Date: (Amended) January 1, 2006 (retroactive); Upon passage; July 1, 2006; January 1, 2007..

Explanation of State Expenditures:

Explanation of State Revenues: *Abatements for Used Equipment:* The state levies a small tax rate on property for State Fair and State Forestry. Any change in the amount granted for abatements would change the amount received from this tax.

If there is an increase in investment because of the changes in this bill, the new property would, at some point, be placed on the tax rolls and the State Fair and State Forestry funds would receive increased revenues. If the investment would have been made with or without the abatement, then increased revenues to the State Fair and State Forestry funds would be foregone until the property is placed on the tax rolls.

Explanation of Local Expenditures: *Property Tax Payment Options:* IC 6-1.1-37-10 provides that if an installment of property taxes is not completely paid on or before the due date, a 10% penalty is added to the unpaid portion in the year of the initial delinquency. The proposal provides that if payment of an installment of property taxes is made after the due date and before the date that succeeds the due date by 90 days, the penalty is 5% of the amount of delinquent taxes. The proposal applies only to property taxes first payable after December 31, 2006.

Counties may experience an increase in administrative costs associated with applying a reduced percentage for penalties. However, it is expected that counties should be able to pay for any additional administrative costs resulting from the reduction given their current level of resources and budgets.

Explanation of Local Revenues: *Abatements for Used Equipment:* Under current law, only new manufacturing, research and development, and logistic equipment may qualify for property tax abatements. The abatements are available for up to ten years. Beginning with taxes paid in 2007, this proposal would allow local designating bodies to grant abatements on used (as well as new) equipment if the equipment was never used by the applicant in Indiana.

If there is an increase in development because of this proposal, the new property would, at some point, be placed on the tax rolls. This could help spread the property tax burden and could possibly reduce some tax rates. However, if one assumes that the investment would be made with or without the abatement, an increase in abatements could also cause a delay in the shift of the property tax burden from all taxpayers to the owners of the new property until the property is placed on the tax rolls. In all cases, the granting of an abatement is a local decision.

The impact would depend on the number and value of new abatements that might be granted because of this proposal. The following chart contains the personal property abatements for 1994 to 2004.

Depreciable Personal Property Abatements

Pay Year	Abated AV	%Change	Net Tax Value of Abatements	% Change
1994	643,277,144		54,579,109	
1995	516,833,664	-19.7%	44,913,061	-17.7%
1996	648,075,160	25.4%	66,760,681	48.6%
1997	580,118,361	-10.5%	49,280,601	-26.2%
1998	536,362,429	-7.5%	43,532,906	-11.7%
1999	633,814,998	18.2%	49,989,013	14.8%
2000	866,194,465	36.7%	70,955,197	41.9%
2001	1,087,923,070	25.6%	94,062,035	32.6%
2002*	3,526,835,012	8.1%	102,594,325	9.1%
2003	6,233,443,587	76.7%	154,181,896	50.3%
2004	4,365,130,805	-30.0%	108,660,301	-29.5%
Avg 1994 - 2004		8.5%		13.4%

* Deductions tripled in 2002 when True Tax Value changed from 33 % to 100% of True Tax Value. The growth rate is adjusted for this change.

Exemption - Youth Soccer Organization: HEA 327 - 2005 allows a Youth Soccer Organization to claim a refund of property taxes paid that were due in 2000 - 2004 if the tax liability exceeded $33,000. The Zionsville Youth Soccer Association's refund claim was for more than $33,000 of tax liability and penalties. The actual tax liability was less than $33,000 but greater than $30,000. This provision clarifies that the tax liability would have to have been greater than $30,000 (and not $33,000) to qualify for the refund.

Exemption - Fraternity: This provision would retroactively provide property tax exemptions to a fraternity at Butler University that failed to timely file applications for exemption.. The exemptions would be applicable to taxes payable in 2001, 2002, 2003, and 2004. If taxes have already been paid for an affected year, the exemption would result in a refund of taxes which would reduce overall tax revenues in the year refunded.

Abatement - Foundry: This provision would retroactively grant property tax abatements to a Grant County taxpayer that operates a grey iron foundry. The abatements would be granted for taxes payable in 2001, 2002, 2003, and 2004 if the taxpayer applied in 2001 for the deductions and the deductions were denied by the DLGF. The taxpayer would be entitled to file refund claims for taxes paid on the abatement amounts. The total net tax that would be refunded under this provision is estimated at $150,000. This refund would result in a reduction of property tax revenues for the taxing units that serve the taxpayer in the year in which the refund is paid.

Reassessment of Sold Lots: Under existing law, farmland is assessed at a lower rate ($880 per acre multiplied by a productivity factor) than the rate at which residential, commercial, or industrial property is assessed. If the land is transferred from agricultural land to a developer and is subdivided into lots, the land may not be assessed until the next change of title. Typically, the title is transferred to a residential, commercial, or industrial user, but it could be transferred to another developer. Current law also requires that the land would be re-assessed if it is re-zoned. It is possible under current law, that the developer could still own the land when it is re-zoned. A case was brought before the Tax Court. The Tax Court determined that the law was ambiguous and that the land should be reassessed when the land is re-zoned regardless of who owned it.

The proposal provides that in the case of land in a developer's inventory (whether it be the initial developer or not), the land should not be reassessed until the developer transfers title, regardless of whether the land has been re-zoned.

The impact of the bill will be to delay the addition of the land's AV as residential, commercial, or industrial land to the tax rolls, which will result in lower overall AV until the land is reassessed from agricultural to residential, commercial, or industrial. The delays would also delay a shift of the property tax burden from the owners of land that is assessed as agricultural to all taxpayers in the form of an increased tax rate.

Total local revenues, except for cumulative funds, would not be affected. The delay in increasing the AV will delay any increase in revenue that cumulative funds would experience because of the increase in AV that would be experienced when the land is reassessed from agricultural land to residential, commercial, or industrial. The delay would equal the product of the fund rate multiplied by the difference in AV resulting from the reassessment.

Property Tax Payment Options: Under current law, a county may establish an installment payment system with the approval of the county fiscal body, county auditor, and the county treasurer. Under this provision, only the county fiscal body's approval would be needed.

The bill reduces the existing penalties assessed late property tax payments from 10% to 5% of taxes owed if payment is made within 30 days after the due date. This provision will reduce the amount of revenue collected for late payment penalties. Property tax penalties for 2005 that would have been affected had the provision been in place in 2005 equaled $36 M. If all of this amount qualified for the reduction, reducing the penalty to 5% would result in a estimated revenue decrease of $18 M.

Penalties collected are credited to the appropriate taxing units and are distributed in the same manner as other property taxes–based on a unit's levy as a proportion of all levies within the taxing district.

(Revised) *Farm Equipment:* Under current DLGF rules, all business depreciable property, including farm equipment, is valued according to a depreciation schedule as specified in the rule. Taxpayers list the cost of depreciable property in one of four "pools", depending on the declared useful life of the property. Each pool has a different set of depreciation rates for each year of age of the property. The cost of equipment is multiplied by the appropriate "percent good" factor in the depreciation schedule to produce the true tax value (TTV) of the equipment. The TTV of all of a taxpayer's depreciable property located in the same tax taxing district must be at least 30% of the total cost of the property.

Beginning with taxes payable in 2008 under this bill, farm equipment that is more than 13 years old would be assessed at its fair market value instead of using the cost less depreciation method. The 30% floor would not apply to older farm equipment assessed at fair market value under the bill. This treatment of older farm equipment would result in a reduction of assessed value.

The reduced farm equipment valuations would shift part of the property tax burden from the taxpayers who own equipment to all taxpayers in the form of an increased tax rate. Total local revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the AV reduction applicable to that fund.

The total estimated net AV of farm equipment was $1.1 B M (0.39% of total AV) in CY 2003. The net tax was estimated at $15.8 M (0.30 % of total net tax). A portion of this net tax would be shifted to other taxpayers under this provision as estimated below.

The personal property return lists older property in each of the four pools as one amount four all of the years past the maximum useful life for the pool. The older assets in pool 1 are 4 or more years old. In pool 2, they are at least 8 years old. In pool 3, they are at least 12 years old and in pool 4, they are at least 13 years old. Because of the lack of precision in reporting ages of the older equipment, it is not possible to estimate the actual impact of this provision. However, one can assume that the maximum impact could be based on these reports of older equipment, keeping in mind that some of this equipment is newer than 13 years old and that the equipment will still have value.

An examination of the farm personal property returns for taxes paid in 2003 suggests that the maximum amount of taxes paid on the "older" equipment represents about 20% or $3 M of the total net tax on farm equipment. Only part of the $3 M is actually paid on farm equipment older than 13 years. Also, this equipment would be valued at fair market value which means that it would still have some, unknown, amount of value. So, the estimated tax shift from farmers to all taxpayers under this proposal is estimated at less than $3 M.

State Agencies Affected: Department of Natural Resources; State Fair Board, Department of Local Government Finance.

Local Agencies Affected: County auditors; Taxing units that serve properties receiving property tax refunds.

Information Sources: Local Government Database; County auditor abstracts.

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